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THE FOUNDATION FOR
HOUSING INNOVATIONS, INC.
Investors Report
Summer 1968



Quincy-Geneva
Demonstration Block

north

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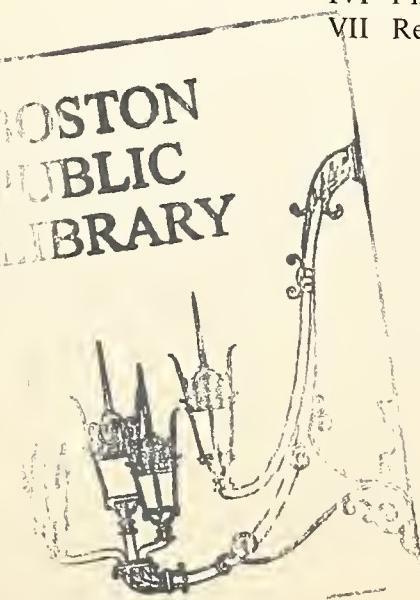
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HOUSING INNOVATIONS, INC.
366A Blue Hill Ave.
Roxbury, Massachusetts 02121
Tel. (617) 427-3315

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INVESTORS REPORT SUMMARY

INTRODUCTION

The Foundation for Housing Innovations, Inc. was formed in April, 1967, to provide financial resources for innovative projects in the field of low-income housing. In the summer of that year, together with Housing Innovations, Inc., it embarked upon a home ownership-rehabilitation "Pilot Project" in a three-block area of Roxbury-North Dorchester.

The area's population is 95% black. Its housing stock is predominantly three-family and is 50% deteriorated and 50% absentee owned.

The immediate goals and objectives of that project were:

1. To renew a deteriorated ghetto area by substantially increasing the percentage of home ownership.
2. To purchase and rehabilitate, for the purpose of resale to area residents, 60% of the absentee-owned properties (approximately 30 properties).
3. To develop a 100% financing mechanism to allow low and moderate income families to purchase properties with no down payments. Low-income residents would own and live in rent-producing, rehabilitated structures.
4. To attract the investment of private funds and to provide a reasonable return on these investments, thus demonstrating the desirability of investing in low-income housing.
5. To develop a comprehensive social service program to complement the physical rehabilitation.
6. To assist in the development of black contractors and skilled laborers.

7. To develop a self-sustaining real estate and development corporation specializing in home ownership in ghetto areas.

This progress report will indicate that many of these goals have been accomplished or are well on their way to accomplishment; and, as might be expected in a new project, that problems have been encountered which were not originally foreseen.

PROGRESS TO DATE

FUND RAISING

The Foundation for Housing INnovations, Inc. (FHI) set a goal for the Pilot Project of \$395,000. This goal has been surpassed by \$84,020 for a grand total of \$479,020. Over 18 individuals, businesses and foundations have responded with donations and investments.

FINANCING – THE BANKS

In cooperation with the Federal savings and loan industry under the leadership of the Federal Home Loan Bank of Boston, FHI has developed a financing mechanism which will allow low and moderate income families to purchase rehabilitated houses with no down-payment. The mechanism includes no direct Federal subsidies or insurance programs and is, in that sense, conventional. Interest rates and mortgage terms (6 3/4% to 7% and 25 years) are also conventional.

FINANCING

OTHER PUBLIC AND PRIVATE AGENCIES

The Boston Housing Authority, through its Leased Housing Program, has agreed to lease a number of units in the area; the Tax Assessors Department of the City of Boston has been cooperative in providing just evaluations of newly rehabilitated properties; and FHA has indicated a willingness to provide FHA insurance on the properties in the area.

ACQUISITION AND REHABILITATION

FHI has acquired three buildings containing 12 apartments and has 12 other buildings containing 35 apartments under purchase and sales agreement.

The 12 apartments which are owned by FHI are undergoing intensive rehabilitation.

Based upon experience to date, acquisition and rehabilitation costs are close to estimated costs, and there has been no rise in the price of properties in the Pilot Project area.

DEMAND FOR HOME OWNERSHIP

The demand for ownership of housing in FHI's three-block area has been greater than anticipated, considering that FHI has not advertised its program. Eighteen potential home owners have applied for the three houses which are being rehabilitated, and three of them have been tentatively accepted by both FHI and the mortgagees.

BLACK CONTRACTORS

FHI is now using three local black contractors in the rehabilitation of its first three houses and will continue to use local contractors wherever possible.

PROBLEMS TO DATE

FUND RAISING – INVESTMENTS FROM NON-PROFIT INSTITUTIONS

Although a special effort was made to obtain investments from the portfolios of non-profit foundations, religious and education institutions, no money was forthcoming from these sources. Trustee conservatism appeared to be the reason for lack of support in this area.

SOCIAL SERVICE PROGRAM

The social services program dealing with home ownership training and counseling, job training, child care, etc., has not kept pace with the physical rehabilitation program. However, this program is now receiving the additional attention it deserves and should be in full operation by the end of the summer.

FIRE AND HAZARD INSURANCE

Although FHI has been able to obtain complete coverage on its first three properties, 20% of that coverage had to be placed with foreign companies at triple domestic premium rates. In one case, foreign coverage was necessitated because of a cancellation by a domestic company. Apparently there is a policy of widespread cancellations by domestic companies in the black areas of Boston.

NEW DEVELOPMENTS

Housing Innovations, Inc., has embarked upon two projects which will be complementary to the Pilot Project:

- a. The BRA has agreed to participate with HII in the development of a home ownership "infill" program (new housing on small, scattered sites) in a 35-block area surrounding the Pilot Project.
- b. The Model Cities Administration has awarded HII a consulting contract to develop a home ownership program (individual ownership, co-operatives or condominiums) for the Model Cities Area.

INVESTORS REPORT FUND RAISING

Based upon a 100% financing mechanism and a desire to establish a self-sustaining development corporation FHI set out to raise approximately \$395,000 in invested and donated funds. The invested funds (\$200,000) were to cover the downpayments necessary for the 100% financing, while the donated funds (\$195,000) were to provide expenses for administration, operation and working capital through a five-year period of growth to self-sufficiency.

Beginning in September, 1967, and continuing for five months thereafter, an intensive fund-raising drive, was launched which to date has netted \$479,020. Both the donated and invested segments have been oversubscribed. (See Exhibit 1 - Donors and Investors).

FHI aimed its fund-raising efforts at individuals, businesses, educational and religious institutions and foundations. It was generally successful in impressing upon these organizations the need to develop a rehabilitation-home ownership program. FHI said that investments would not only aid in upgrading the ghetto, but would also be economically sound. The complete list of investors and contributors shows that this approach made sense to a wide range of individuals and groups.

INVESTMENTS FROM NON-PROFIT INSTITUTIONS

A special and intensive effort was made to convince non-profit institutions to invest a small portion of their sizeable portfolios in FHI. Approaches were made to local and national foundations, colleges, universities and private secondary schools, major religious denominations and individual churches. In all cases the operating heads of the institutions involved exhibited a keen awareness of the problems of the ghetto and the usefulness of the FHI approach. They were in many cases, personally as well as institutionally involved in attempting to solve the problems of the ghetto.

Substantial donations were received from one foundation and one church official and two small family foundations did invest, but no significant investments were forthcoming. In general, the trustees of the institutions felt bound by the so-called "prudent man" rule from investing even a small portion of their portfolio (say 1/2 of 1%) in a venture which might be considered risky. They were not convinced by arguments as to the social utility of the investment or as to its complementary effect of the day to day activities of the institutions they represented.

FHI intends to continue fund raising efforts with the institutions as their resources are great and their responsibility self-evident.

FINANCING: THE BANKS

One of the major problems in bringing ownership to low-and moderate - income families was to devise a way of allowing them to purchase a rehabilitated house with little or no downpayment. FHI solved this problem, with the help of financial institutions which were willing to deviate from normal practices, by developing a 100% financing plan, unaided by direct Federal subsidies or insurance programs.

The plan utilizes conventional interest rates, a conventional mortgage of 75 to 80% of the price of the house and a deposit of FHI's funds which is placed with the mortgagee to make up the difference of 20 to 25%. As the home owner repays the 100% mortgage amount, with equal monthly payments, FHI has its deposit refunded on the basis of \$100 for every \$200 of principal reduction. Thus for a 25-year mortgage @ 7%, a 20% deposit would be repaid to the Foundation over a 15-year period. During that time the home owner would have reduced the principal on the mortgage by approximately 40%.

The financial institutions that have cooperated in developing this unique financing arrangement and which have already participated as mortgagees of FHI's first three properties are Home Owners Federal Savings and Loan, Boston Federal Savings and Loan, and Northeast Federal Savings and Loan. The Federal Home Loan Bank (the counterpart for savings and loan institutions of the Federal Reserve Bank) has also been instrumental in the development of the financing mechanism. A 12-point agreement protecting the rights of the home owner, mortgagee and FHI has been developed and is in effect with the three mortgagees.

FINANCING: OTHER PUBLIC AND PRIVATE AGENCIES

In order to achieve a program which was both sound financially and socially, it was necessary to be concerned with the cash expenses of owning the property (insurance, real estate taxes, etc.) and the rental income from the property. The objective was to minimize expenses and obtain an adequate rental without unduly penalizing the existing low-income tenants. A rehabilitation program which forces existing low-income families to relocate because of increased rentals is a social failure.

It was important therefore that the rents remain within the existing tenants ability to pay. This was achieved in part by designing the rehabilitation in such a way that although standards were adequate, rehabilitation costs were not extravagant. The new mortgage financing often considerably better than the second and third mortgage situation under which properties had been financed, also contributed to economy.

Another key to the problem, however, was the participation of the Boston Housing Authority's Leased Housing Program. Under this program the Housing Authority leases from individual owners standard units throughout the City for use by tenants eligible for public housing.

For the first 12 apartments in the Pilot Project area, it will allow those eligible for public housing to pay the same or less rent under the Leased Housing Program (rent is determined by income) than they were paying prior to rehabilitation. The Leased Housing Program has accepted six of the tenants who occupy the houses which have been purchased by FHI for resale. Leased Housing has also agreed to accept additional tenants in FHI's three-block area. This cooperation from the BHA is encouraging and enhancing to FHI's efforts.

It was also important to achieve a reasonable assessed valuation so that yearly tax expenses would not be exorbitant. Since assessed values tend to be unfairly high in the Roxbury-North Dorchester area, a fair evaluation of the rehabilitated property was particularly necessary. The Board of Assessors has been cooperative here, and in one case a re-evaluation has resulted in an assessment after rehabilitation that was lower than that prior to rehabilitation.

In preliminary negotiations with the FHA, there has been agreement by them to insure properties within the three-block area, to evaluate properties in a manner comparable with that in urban renewal areas and to insure mortgages for a 25 year period. In the near future FHI will submit potential home owners to FHA in the hope that future refinancing of the properties can be achieved under an FHA insured program, thereby immediately releasing FHI's deposits and allowing them to be used for other properties.

FHI is still negotiating with other public and private agencies on matters that will make it easier for low-and-moderate-income families to become home owners.

FINANCING: FIRE AND HAZARD INSURANCE

Initially in order to achieve fire and hazard coverage on the properties which it was to acquire, FHI worked through a large Boston broker. This broker obtained binders on

FHI's first three properties from four different American casualty companies. In no case was the company's exposure greater than \$8,000 and in most cases it was \$4,000 per company. These binders were obtained some months prior to actual closing and when the time of closing arrived one domestic company cancelled binders on two properties. FHI was thereby forced to go to Lloyds of London for excess rate foreign coverage.

In the process of negotiating purchase and sale agreements with individual absentee black owners within the Pilot Project area, FHI has in addition discovered a pattern of cancellations or failures to renew fire and hazard insurance. In some cases the properties were in good condition and the owners had carried insurance for a number of years with their respective companies. FHI has received reports of cancellations and failures to renew from, both residential and commercial owners throughout the South End, Roxbury and North Dorchester. In addition the broker with which FHI initially began working, has indicated a growing reluctance among his correspondent companies, some 16 in all, to take insurance within the black areas of Boston. FHI is taking a number of steps in order to solve its own immediate problems, and there is some indication that it may be successful here. Nevertheless, it is clear that adequate fire and hazard insurance remains a serious area wide problem which must be solved in some basic manner for the general health of the community.

ACQUISITION AND REHABILITATION

FHI has acquired and is now rehabilitating 12 apartments in three multi-family houses. Twelve other houses are under purchase and sales agreement. Work will commence as soon as the acquisition process is completed. It is estimated that at least 20 houses will be in some stage of rehabilitation, acquisition or resident ownership by the end of 1968.

Before the home ownership program began estimates were made as to the cost of acquisition and rehabilitation of a wooden triple decker (3 apartment building) in need of major repairs. These costs estimates were included in the FHI brochure of September, 1967, and were used as a basis for demonstrating the feasibility of the project. A comparison has been made of these estimates and the actual costs incurred on the three houses which are now undergoing rehabilitation and the 12 additional houses under purchase and sales agreements. The actual costs are running slightly higher than predicted, and are not seriously out of line. (See Exhibit II for comparison).

DEMAND FOR HOME OWNERSHIP

The response that FHI has received from potential home owners has exceeded expectation. Without any advertising FHI has received 19 applications from potential home owners who are interested in buying the three houses which are undergoing rehabilitation. Three applicants have been tentatively accepted by FHI and the banks, and the remainder will receive consideration as other buildings are completed.

Except that they are all black and live in or near the Pilot Project area the profile of the potential home owners shows considerable variation. Family sizes range from 2 to 13; ages of potential home owners from 23 to 50; length of residence in Boston from 1 to 31 years; and annual income for the head of household from \$3500 to \$10,000. FHI's criteria for choosing home owners include the following:

- a. Potential contribution to growth and stability of the neighborhood.
- b. Demonstration of need of financial assistance.
- c; Potential for financial success as a homeowner.

(See Exhibit V for the profile of home owners.) All the applicants have seen the buildings and are impressed with the rehabilitation.

TENANTS AND LEASING

The tenants are continuing to occupy the houses as they are being rehabilitated. Even though there is some inconvenience, they seem willing to accept it for the sake of living in better apartments once they are completed. FHI is prepared to relocate any family that finds the inconvenience too great.

As stated earlier, some of the tenants have been accepted in the Leased Housing Program and recognize the benefits of receiving a better apartment for the same or less rent than they are now paying.

SOCIAL SERVICES

FHI recognizes the need for social services pertaining to home ownership. New home owners of moderate or low income will need such help as home budgeting, job training and better employment opportunities.

FHI is investigating the possibility of bringing more of the resources of the existing community social service organizations to bear on the problems within FHI's three-block area. FHI is also studying the possibility of adding a staff person to insure that the new home owners will receive the necessary social services in the event that the existing community agencies cannot offer such services at the level that FHI deems necessary.

DIRECTORS AND OPERATING PERSONNEL

Mr. Ralph Hoagland has resigned as director of FHI. A current list of directors is shown in Exhibit IV.

In addition to Mr. Denis Blackett and Mrs. Carole Hobson, the following additional staff people, all of whom are black and all of whom, except one, have considerable experience in working in the local community, have been hired:

1. Simeon Niles, who has extensive experience in rehabilitation, construction, and real estate management, handles the operational aspects of the home ownership program. His duties include both administrative and field activities and consists of such tasks as interviewing potential home owners, developing and distributing rehabilitation specifications to contractors, locating and purchasing properties from absentee owners and supervising local contractors.
2. Mrs. Shirley Rice serves as Mr. Niles' secretary and also assists him with some of the routine administrative tasks.
3. A. Leroy Willis is a summer employee and a second-year student at the Harvard Business School. He will assist in streamlining FHI's overall operations, and analyzing future fund needs. (See Exhibit V for the experience profile of the above personnel.)

NEW DEVELOPMENTS

Housing Innovations, Inc., (HII) which was formed in June, 1966, to provide consulting, planning and development services in the field of low-income housing and which has a two-year consulting contract with FHI has undertaken two projects which will be of benefit to FHI.

Mayor White has announced a 1,000 unit infill program (i.e. new housing on small scattered sites, ranging anywhere from 2 to 20 units per site) in the City of Boston, and HII has a firm commitment from the City that sites within the 35-block area surrounding the Pilot Project will be made available to it. HII hopes to develop upwards of 50 units within the next year. The major objectives of its program will be:

1. Development of a financing package which will allow for the ownership of these units by low-income residents of the area either through direct ownership, cooperatives and/or condominiums.
2. The utilization of local black contractors in the development of this new housing.

Item 2 is particularly important since although there are many local contractors skilled in rehabilitation, there are few that have experience as general contractors in new housing. HII will locate the sites, hire contractors to build the houses and develop a financing package making use of Federal and State assisted housing programs aimed at ownership for low income families.

Since the new construction will take place in FHI's 35-block area, the people of the area will have even greater options and opportunities for home ownership. In addition, new construction will add to the atmosphere of genuine renewal that FHI is trying to bring to the area.

The expertise that will be gained in developing another innovative home ownership financing mechanism will be an important asset and the financing mechanism may be immediately and directly applicable to the ongoing rehabilitation program in the Pilot Project.

The second undertaking, which should be completed by the end of August, 1968, is a Model Cities consulting contract. HII will investigate various options for home ownership by low and moderate income families such as cooperatives, condominiums, and individual ownership and analyze their

applicability to the Model Cities area. An essential feature of the program, is again, the development of effective financing mechanisms which will make it easier for the poor to own homes.

In the development of these two programs, HII has the volunteer and paid assistance this summer of several students from the Schools of Law, and Business and the Graduate School of Design at Harvard University. Likewise on a paid and volunteer basis, a team of professors from these schools as well as professionals in the field of architecture and real estate development have been engaged by HII to assist in the development of these programs.

FUNDS NEEDED

As FHI moves from the 3-block Pilot Project into the larger 35-block area, it is likely that it will need additional funds to carry out its expanding operations. Working capital requirements are sure to increase. The Infill Program will also have to be funded and may be funded through FHI. Analysis this summer will determine the extent of these needs.

FHI is also looking ahead to the possibility of developing a broad based research and development corporation in the field of low-income housing. If this seems feasible, FHI will need additional funds for such a development.

CONCLUSION

One year ago, FHI was just moving beyond its embryo stage and was beset with many uncertainties about its future. The fact that FHI has an ownership interest in its properties, has begun rehabilitation on 3 of them, and has received a more than adequate response to its program from several segments of the community (i.e., investors contributors, mortgagees, Federal and city agencies, tenants and potential homeowners) points to a promising future.

EXHIBIT I

DONORS AND INVESTORS

<u>DONORS</u>	<u>AMOUNT*</u>
Boston Edison Company	5,000
First National Bank	5,000
Ford Foundation	132,500**
Bishop J. F. Minihan	10,000
Tom White	50,000***
Stop & Shop	3,000

<u>INVESTORS</u>	<u>AMOUNT*</u>
Franklin Parker	10,000
John Hancock Insurance	175,000
Eastern Charitable Foundation	2,500

OTHER DONORS

New England Telephone Company
Polaroid Corporation

	<u>RECEIVED</u>	<u>PLEDGED</u>	<u>TOTAL</u>
Donations	155,777	90,750	246,527
Investments	<u>194,500</u>	<u>38,000</u>	<u>232,500</u>
TOTAL	350,277	128,750	479,027

* The extent of participation has been listed only for those individuals and organizations which gave their approval. There are 13 additional contributors whose names do not appear on this exhibit.

** This amount includes \$66,250 which has been received and \$66,250 which has been pledged but is still outstanding.

*** This amount includes \$25,000 which has been received, and \$24,500 which has been pledged but is still outstanding.

EXHIBIT II

ACQUISITION AND REHABILITATION COST DATA

	ACQUISITION per/apt	REHABILITATION per/apt**
ESTIMATED COSTS	\$1833	\$2833
<u>ACTUAL COSTS</u>		
41 Intervale Street	\$2500	\$2800
48 Intervale Street	\$1930	\$3267
1 Normandy Street	\$1433	\$2833
Average Actual Cost (above 3)	\$1954	\$2967
Average Acquisition Cost*	\$1979	

* Average cost per apartment for the 35 apartments (12 buildings) under purchase and sales agreement. No bids for rehabilitation work on these apartments have been received as yet.

** Based upon accepted bids from contractors presently engaged in work.

EXHIBIT III

DATA ON POTENTIAL HOME OWNERS

P.H.O. NO.	AGE	YEARS/ BOSTON	FAMILY SIZE*	ANNUAL INCOME/ HEAD OF HOUSEHOLD
1	38	20	3	\$ 5300
2	36	7	2	3800
3	36	5	3	4100
4	25	3	3	8400
5	39		2	4800
6	50	16	2	7200
7	41		4	3500
8	25		3	4100
9	40	12	5	5050
10	23	1	3	5200
11	46	31	10	5900
12	29		4	4800
13	35	11	11	5800
14	36	36	4	6600
15	43	43	13	8200
16	27	6	6	10,000
17	47	21	8	5400
18	37	21	3	4800

* Includes head of household

EXHIBIT IV

DIRECTORS OF FHI

EXECUTIVE DIRECTOR

Denis A. Blackett

PRESIDENT

Rev. James Breeden
Mass. Council of Churches

VICE PRESIDENT

Stanley Miller
President, Spacemakers
Graduate, Harvard Business School

TREASURER

Colyer Crum
Professor, Harvard Business School

CLERK

Father Michael F. Groden
St. Joseph's Church

MEMBERS

Edward M. Casey
Partner: Bingham, Dana & Gould

Allyn Eccleston
Irwin Management - Columbus, Indiana

Thomas Raymond
Professor, Harvard Business School

Dr. Jack Mendelsohn
Pastor, Arlington Street Church

Rev. George Thomas
St. Mark's Church

EXHIBIT V

PERSONNEL FOR PILOT PROJECT

DENIS BLACKETT

Executive Director
Bachelors in Architecture, MIT
Masters in Civil Engineering, MIT
Six years' experience in Architecture & Civil Engineering
Two and one-half years' experience - Boston Redevelopment Authority

SIMEON NILES

Director of Development
Registered Master Builder, ABC license City of Boston
Eight years' experience in general construction
Four and one-half years - Boston Redevelopment Authority
Rehabilitation Specialist

A. LEROY WILLIS

Administrative Assistant to Executive Director
Second year student, Harvard Business School

CAROLE HOBSON

Secretary
One year - Boston Housing Authority
Two and one half years - Roxbury Youth Training &
Employment Center
One Year - Action for Boston Community Development

SHIRLEY A. RICE

Secretary
Four and one-half years - Boston Redevelopment Authority

EXHIBIT VI
FOUNDATION FOR HOUSING INNOVATIONS, INC.
STATEMENT OF FINANCIAL CONDITION MAY 31, 1968

ASSETS	LIABILITIES AND SURPLUS	
<u>CURRENT ASSETS</u>	<u>CURRENT LIABILITIES</u>	
*Cash On Deposit	\$148,912.93	Mortgage Notes Payable. \$ 28,949.67
United States Government Securities 90 day certificates of deposit National Shawmut Bank of Boston Maturity July 8, 1968	150,000.00	Accrued Payroll Taxes Payable 109.56
Interest Receivable U.S. Government Securities	1,598.62	Miscellaneous Accounts Payable Housing Innovations, Inc. \$ 1,963.75 <u>1,963.75</u>
Real Estate Held for Resale	<u>37,440.80</u>	Total current liabilities 31,022.98
Total current assets	\$337,952.35	<u>LONG TERM LIABILITIES</u> 214,500.00
Organization expense	<u>\$96.18</u> <u>96.18</u>	Individual Investors 39,500.00 John Hancock Mutual Life Insurance Company <u>175,000.00</u> <u>214,500.00</u>
	<u>\$338,048.55</u>	SURPLUS – see exhibit VII <u>92,525.55</u>

* As of June 18, 1968, \$75,000 was converted into U.S. Treasury Bills.

\$338,048.55

EXHIBIT VII

RECEIPTS OVER EXPENDITURES

RECEIPTS:

Balance, January 1, 1968	
- all from contributed funds 1967	\$35,029.29
Contributed funds	78,715.10
Interest Income	1,806.96
Miscellaneous income	<u>600.00</u>
	\$116,151.35

GENERAL EXPENSES:

Fund Raising

Administrative assistant	500.00
* Consulting fees	23,180.00
General office	116.32
Taxes	22.00
Travel	<u>33.61</u>
	23,851.93

BALANCE AFTER GENERAL EXPENSES \$ 92,299.42

** MANAGEMENT FUND ADDITIONS:

Rental collections	627.50
Less:	
Cleaning charges	\$195.00
Heat	119.63
General maintenance	34.74
Managers fees	40.00
Plumbing	12.00
	<u>401.37</u>

226.13

BALANCE RECEIPTS OVER EXPENDITURES \$ 92,525.55

*Consulting contract with Housing Innovations, Inc.

* Management of properties held for resale.

